

Investments and Pensions Oversight Committee

Tuesday, June 17, 2014

ERB Update

Bob Jacksha and Jan Goodwin

Mary Lou Cameron, Board Chair

H. Russell Goff, Board Vice Chair

Recent Investment Highlights

- Investment earnings for the twelve months ended March 31st were approximately \$1 billion, a return of 9.8%, net of investment management fees.
- Portfolio returns equaled or exceeded actuarial target in most periods measured.
- Actual returns exceeded policy index in all periods measured.
- All-time high of \$10.9B on March 31st (subsequently exceeded on April 30th at \$11.0B).
- ERB was nominated by our peers for a 2014 Excellence in Innovation Award through Institutional Investor Magazine.

Basic Pension Equilibrium Formula

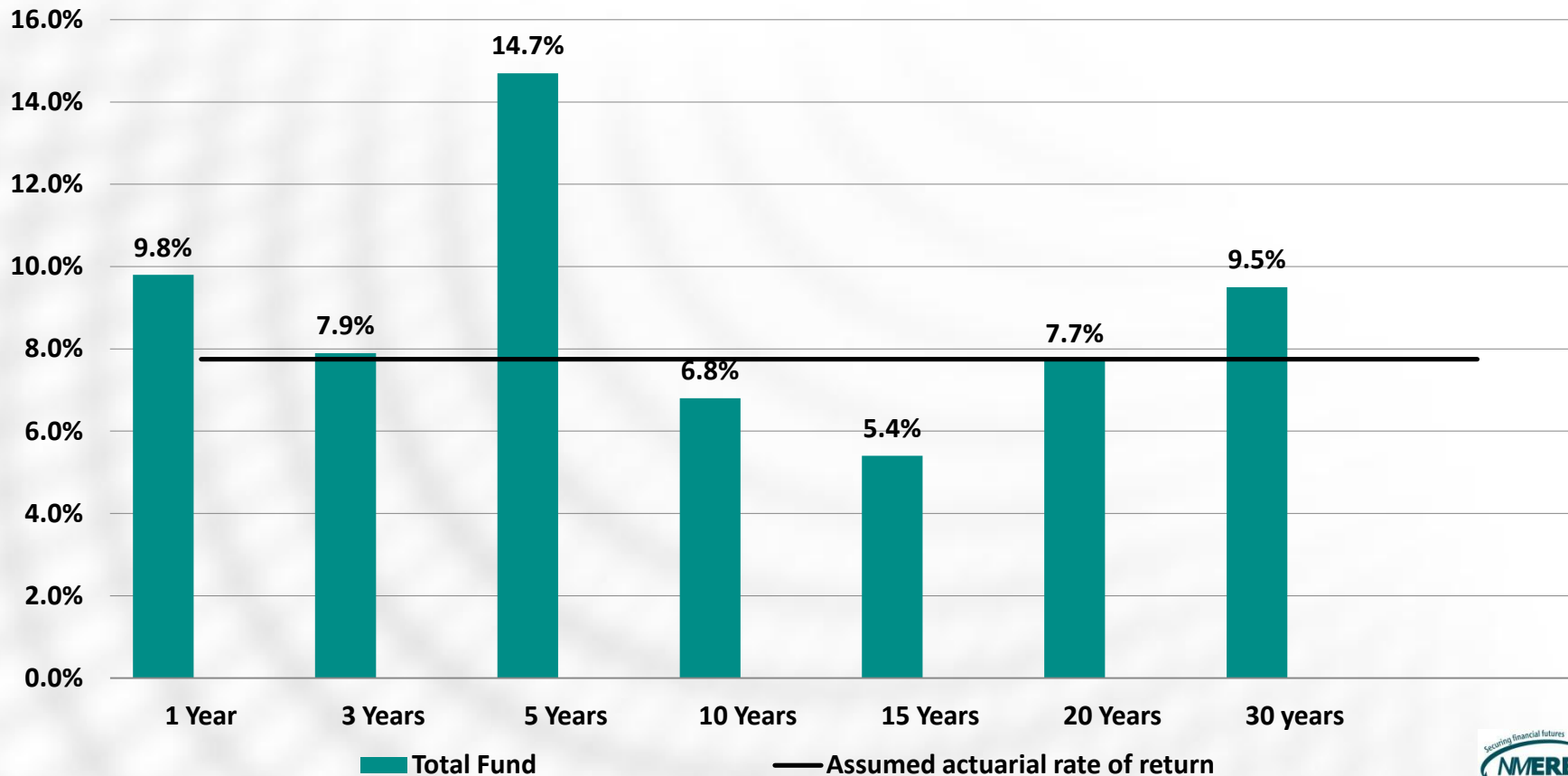
$$C+I=B+E$$

- C=Contributions from employees and employers
- I=Investment Returns
- B=Benefits paid
- E=Expenses of the Fund

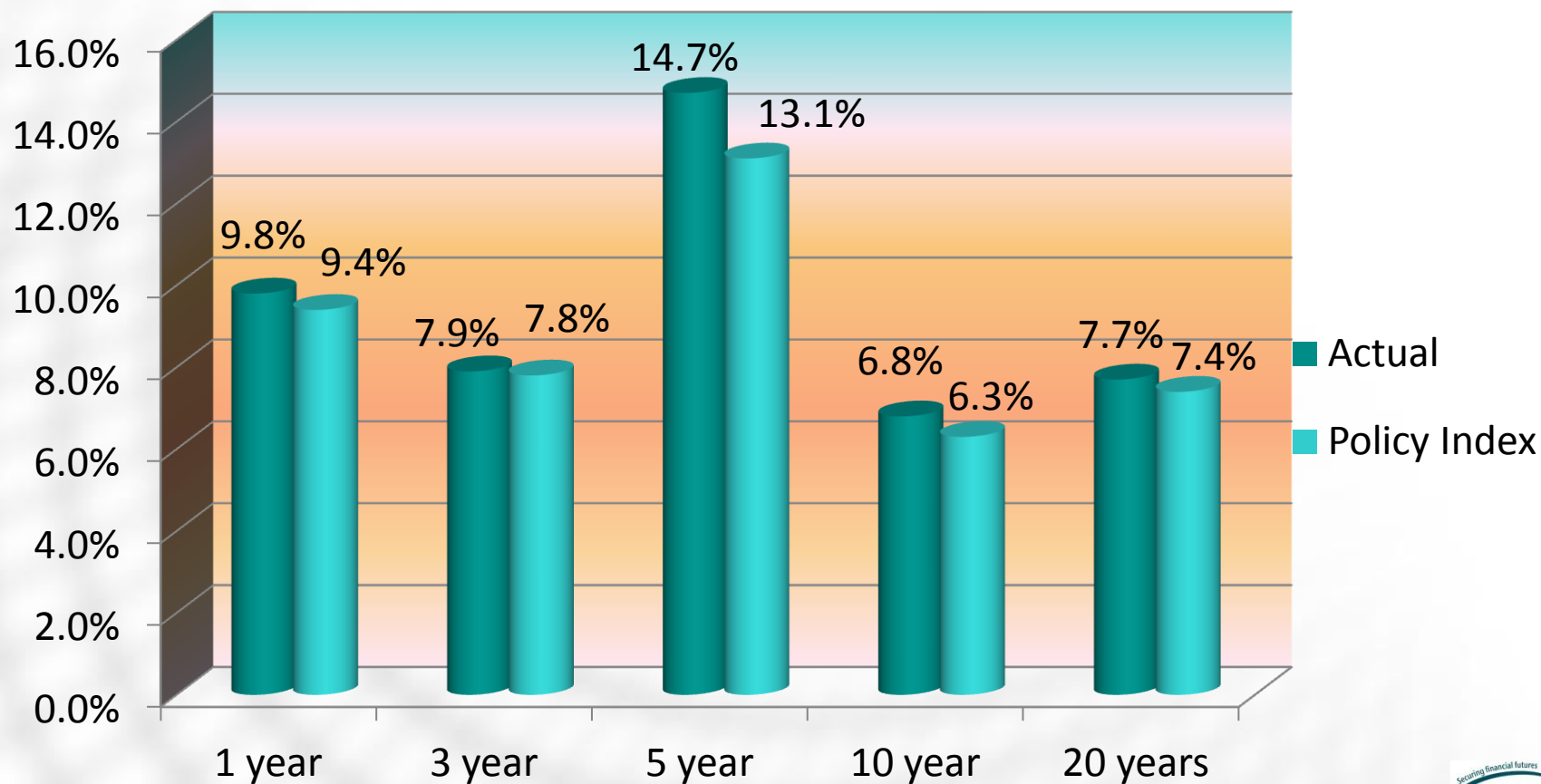
In our case, “I” must equal or exceed 7.75%

Return – Actual Exceeds 7.75% Target

**NMERB Annualized Returns
As of March 31, 2014
Net of fees**



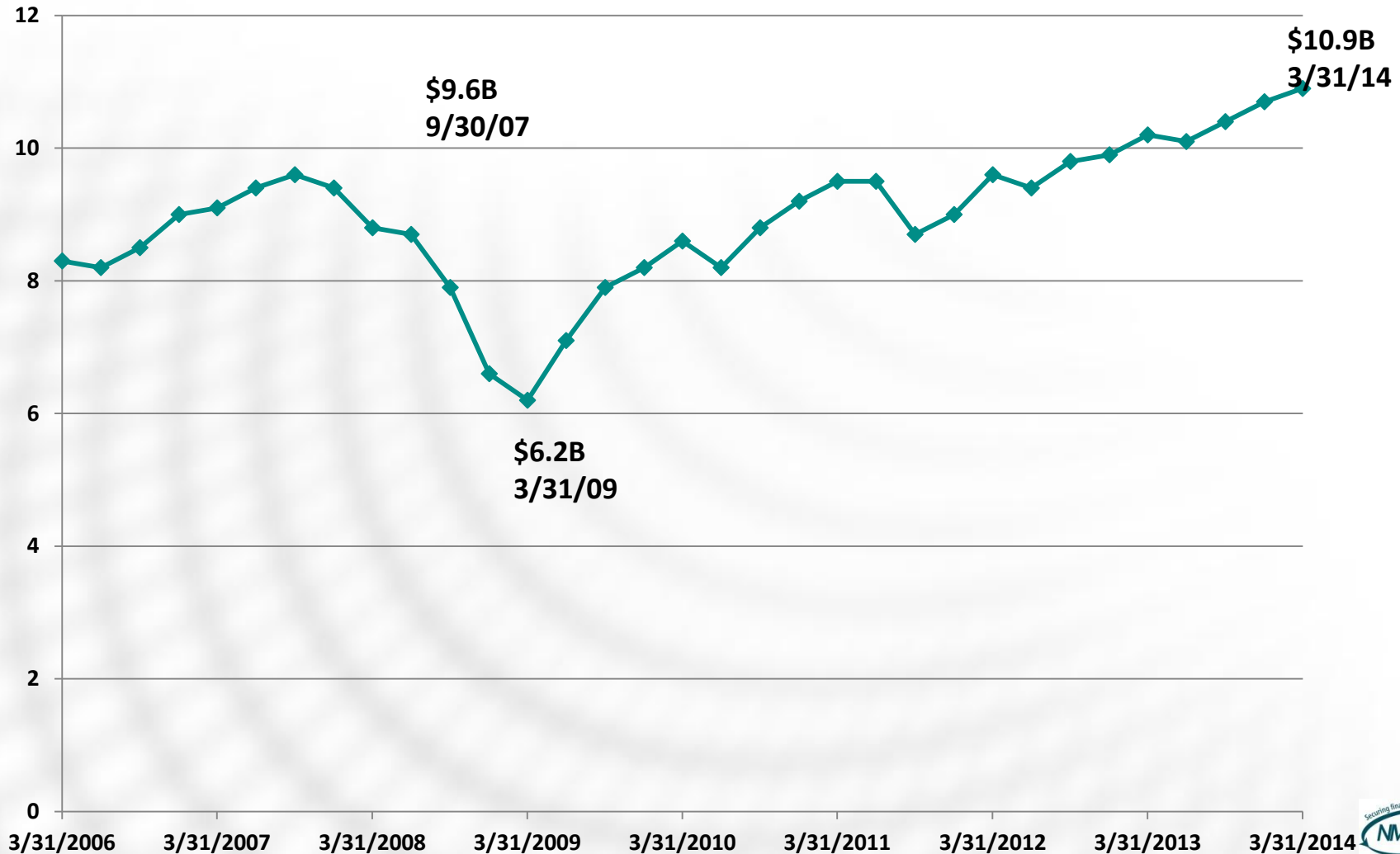
Actual vs. Policy – Periods Ending March 31, 2014



Performance – April 30, 2014 Update

- Positive performance continued in April.
- April 30th assets = \$11.0B
- FYTD (Ten months) returns: approx. 11%
- Twelve month returns: approx. 9.2%

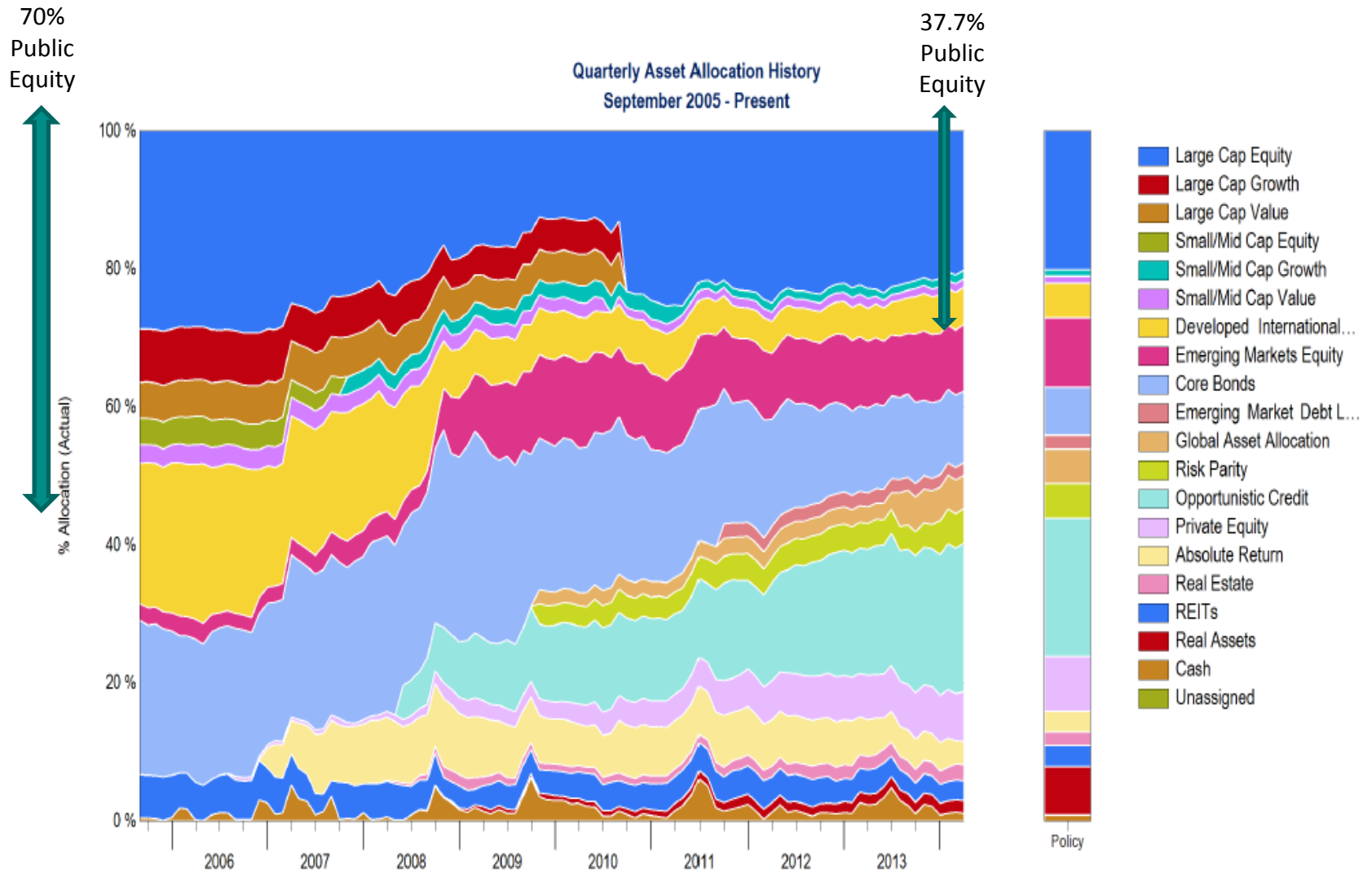
Quarterly ERB Assets: March 2006- March 2014



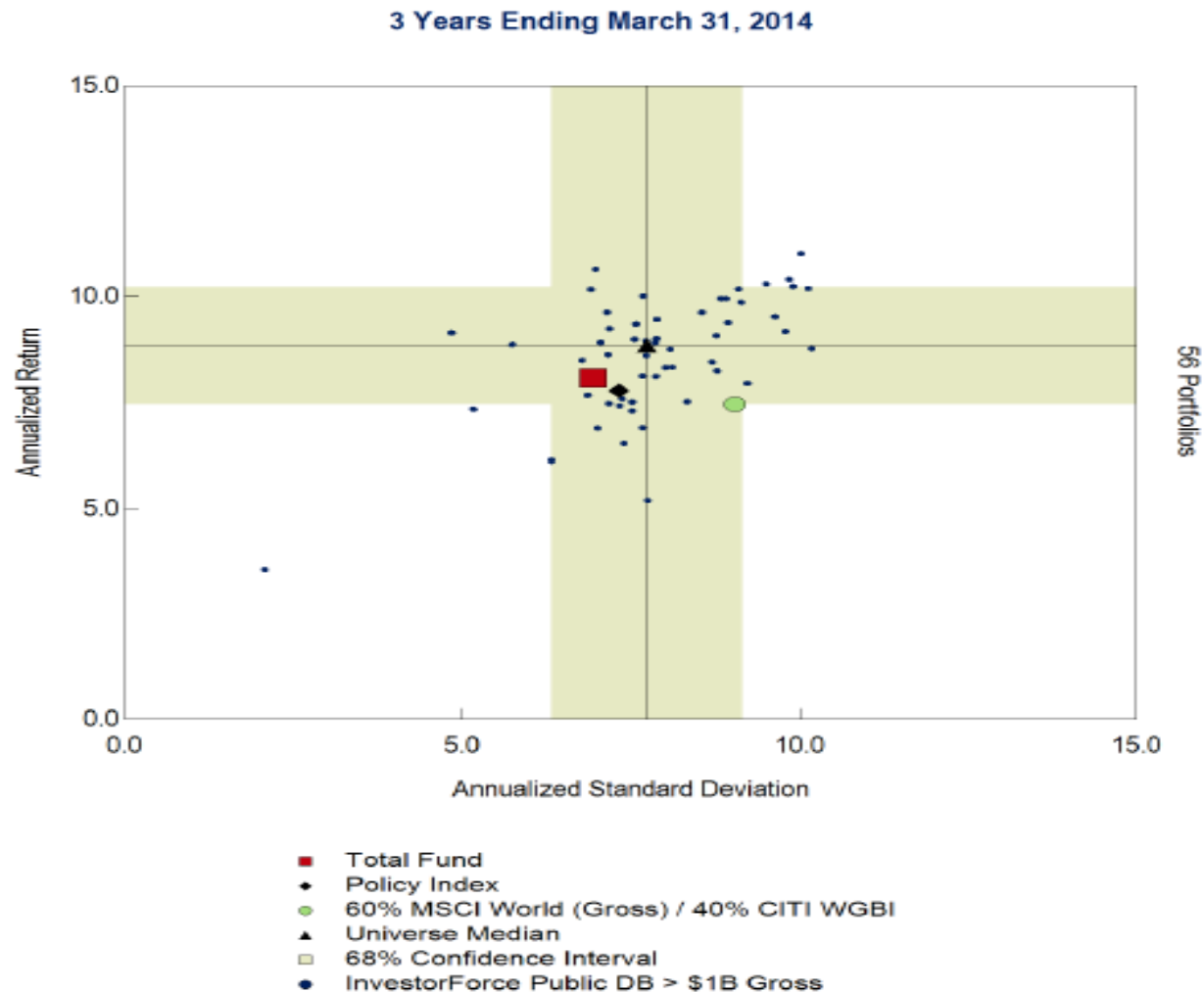
Strategy to Meet Investment Return Goal

- Goal #1: Achieve a long-term, return at least equal to our actuarial assumption of 7.75%.
- Goal #2: Decrease return volatility through diversification.
- Asset Allocation is the main tool, and **the** primary determinant of investment returns.

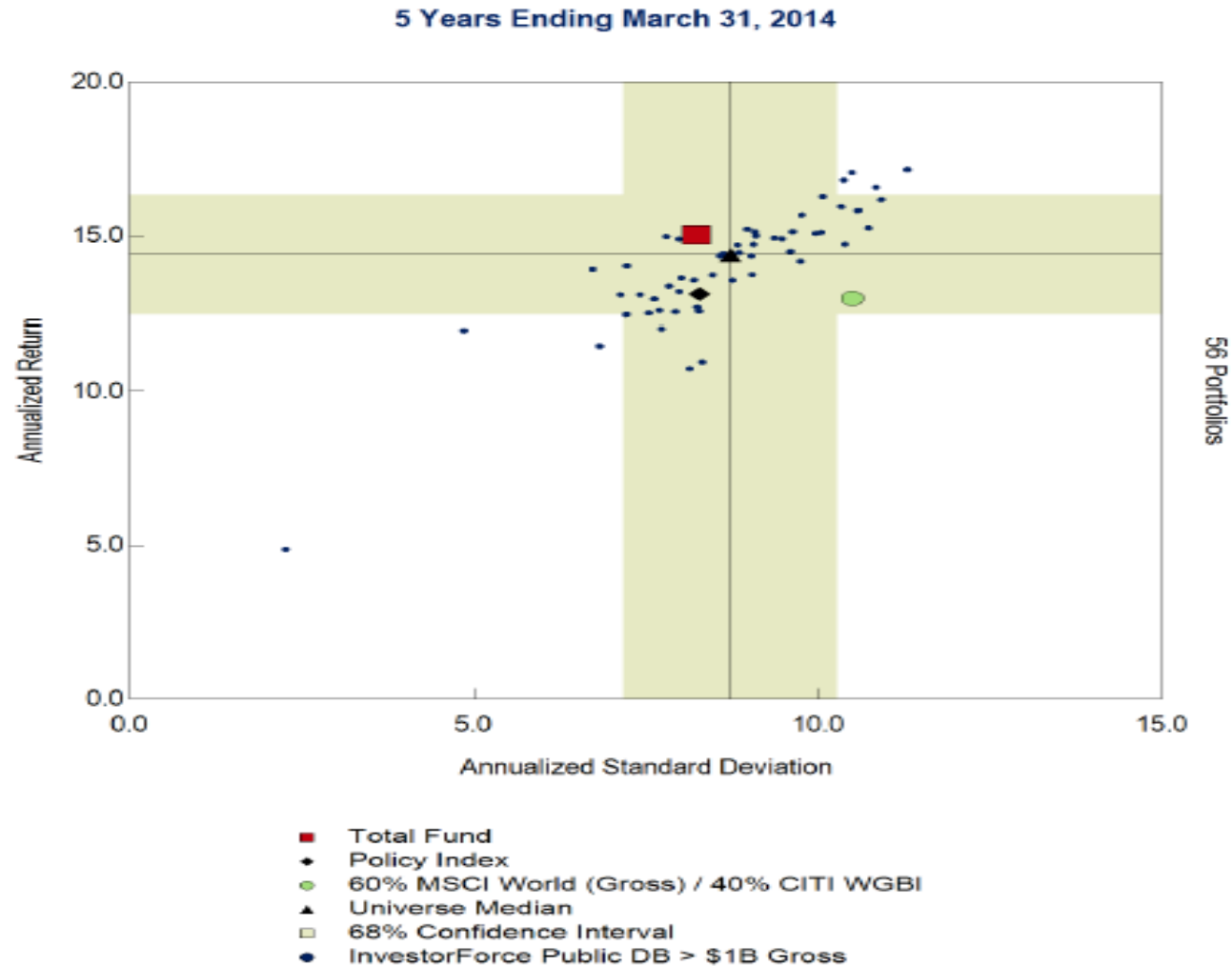
Asset Allocation History



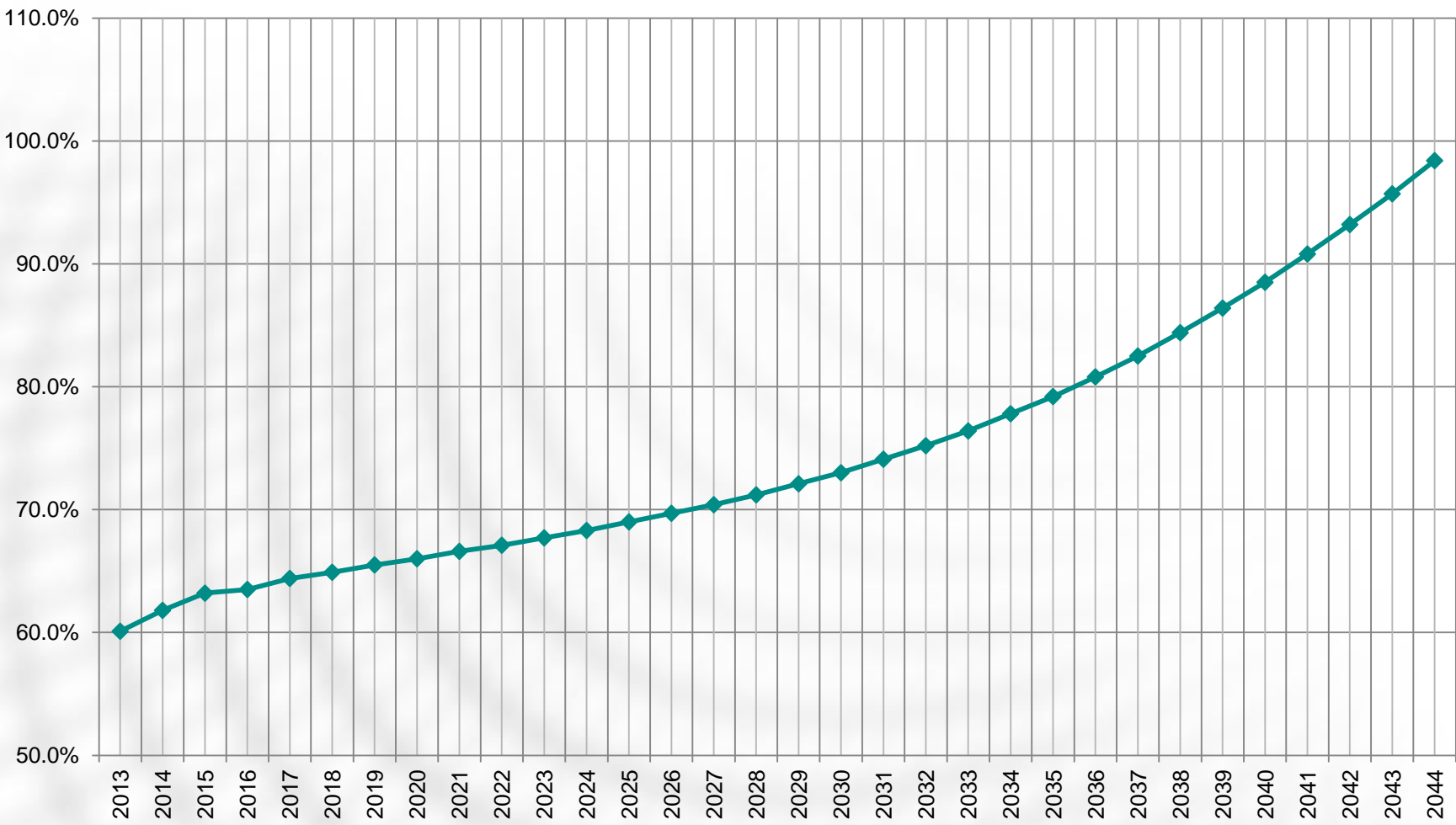
Risk and Return: ERB Peer Comparison



Risk and Return: Five Years



Projected Funded Ratio based on June 30, 2013 Valuation



- Purpose of “limited scope” audit is to determine if results and conclusions determined by the valuation actuary are valid and appropriate
- Peer review of June 30, 2013, actuarial valuation:
 - Evaluate available data for performance of the valuations
 - Analysis of test life detail
 - Evaluation of valuation report, assumptions and methods, and assessment of conclusions

- Peer review of 2012 experience study:
Evaluation of results for reasonableness and consistency
Recommendations for improvement
- We acknowledge and appreciate the helpful assistance from the ERB staff and GRS on this project

Summary of Segal Actuarial Audit Findings

- This audit validates the findings of the June 30, 2013, actuarial valuation.
- Data appears complete.
- Assumptions and methods are reasonable and comply with Actuarial Standards of Practice.
- Test life replication matched to within reasonable range.
- We also believe the experience investigation covering the six years ended June 30, 2012, provides a reasonable basis for setting the actuarial assumptions.

Summary of Segal Actuarial Audit Findings, continued

- In general, recommendations appear reasonable and appropriate.
- No major issues found that would require immediate attention.
- Items addressed can be considered for the upcoming actuarial valuation cycle or as part of the next experience study.
- We have provided some suggestions to improve usefulness of the reports and fine tune calculation of actuarial liabilities.